

February 11, 2004

To the Supervisor and Township Board
Charter Township of Huron
37290 Huron River Drive
New Boston, MI 48164

Dear Supervisor and Board Members:

We recently completed the audit of the financial statements of the Charter Township of Huron for the year ended December 31, 2003. In addition to the audit report, we offer the following comments and suggestions for your consideration.

GASB 34 REMINDER

As we discussed last year, the Government Accounting Standards Board has issued a major pronouncement that will drastically change the way your financial statements will look. For the Charter Township of Huron, this pronouncement went into effect on January 1, 2004. During this current year, the Township will need to develop and execute a specific plan on how to derive some of the data that will be required by the new rules. We have assisted many communities in adopting the pronouncement. Our firm has developed a comprehensive package to make the transition to the new reporting model as smooth as possible. In addition, we compliment your staff on their attendance at the training sessions sponsored by the MMFOA.

Although there are many differences with this new reporting model, the major additions are as follows:

- Management Discussion and Analysis: Management is now required to give an overview of the Township's overall financial position and results of operations.
- Government-wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Township from a longer term perspective (i.e. are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the Township's financial picture.
- Budget Comparison: A financial statement reader will now be able to view not only the actual revenue and expenditures of the Township as compared to the current budget, but also as compared to the original budget.

The GASB believes this new model will provide a more complete picture of the financial position of the Township. We would be happy to schedule a time to provide a more detailed overview of this new reporting model so that you can obtain the greatest benefit from it.

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to Government-wide reporting, infrastructure tracking and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the Township staff and the auditors.

The following concerns related to fixed assets should be addressed prior to implementation of GASB 34:

- It is our understanding that the Township does not have a formal capitalization threshold for fixed assets. We suggest the Township review its records (ordinances or resolutions) to determine if a threshold was previously established. If not, the Township should institute a capitalization threshold as soon as possible.
- The Township does not have a fixed asset listing for the governmental funds. With the adoption of GASB 34 effective January 1, 2004, depreciation for the governmental funds' fixed assets will be calculated for the first time. We recommend undertaking a physical inventory before the end of 2004.

STATE SHARED REVENUE

As commented on in last year's letter, the slow down in the State's economy is now directly affecting the General Fund. State shared revenue accounts for approximately 36% of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

Currently, the budget proposed for the State's 2003/2004 fiscal year included another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

A history of the Township's state shared revenue over the past several years is as follows:

| | |
|------|-------------------------|
| 2001 | \$1,225,000 |
| 2002 | \$1,227,000 |
| 2003 | \$1,198,000 |
| 2004 | \$1,087,000 (estimated) |

PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

| | |
|------|------|
| 2004 | 2.3% |
| 2003 | 1.5% |
| 2002 | 3.2% |
| 2001 | 3.2% |
| 2000 | 1.9% |
| 1999 | 1.6% |

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. Property taxes are the Township's largest source of revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the Township is involved in long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth on the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back".

However, subsequent to the passage of Proposal A, the Township is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. For the year ended December, 2003, the Township's Headlee maximum property tax rate for its operating levy was 0.7941 mill even though Township Charter would allow the Township to levy 1.0000 mill for operations. As indicated, due to the passage of Proposal A, the Township will not be allowed to "roll back" up to 1.0000 mill. If the Township requires additional millage capacity for operations, then a Headlee override vote would be necessary to levy the maximum mills.

Related to property taxes, we also noted that the Township did not remit the winter 2003 property taxes to the schools and county on a timely basis. Funds were collected during December 2003, but no disbursements were made until after January 1, 2004. The Township intentionally delayed remitting the taxes pending the resolution of issues related to County-imposed drain assessments. Also, as of the audit date, the Township has money on hand from the summer 2003 property taxes that needs to be remitted to the schools. The Township held back certain tax funds pending the settlement of the taxes related to Act 198 abatements.

RETIREE HEALTH CARE FUNDING

The Governmental Accounting Standards Board recently issued an exposure draft addressing the accounting for retiree health care. As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. As a result, GASB is proposing changes that would result in the Township having to have an actuarial valuation (or compute the liability internally using a prescribed formula) to define the liability and the liability

RETIREE HEALTH CARE FUNDING (CONTINUED)

would need to be disclosed in the financial statements. In addition, the Township's funding status, or the progress it has made in accumulating assets to pay for this liability, would also be disclosed. Lastly, the Township would be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability over a 30 year period. As you know, the Township has been setting funds aside for this liability. You currently have approximately \$365,000 in the Retirement Health Care Fund. While this is a good start toward funding, you may find that the annual contribution will significantly increase as a result of the actuarial valuation. While this change is still in the draft phase, it is expected that it will be adopted in which case you will need to keep this in mind for long-range planning. These changes will be effective in 2008.

FIVE-YEAR FINANCIAL FORECAST

We encourage the Township to continue to make use of the five-year financial forecast model developed during 1999. The model is meant to be updated at least annually. To the extent it is updated for the 2003 final numbers, as well as the 2004 budget with amendments, it will continue to be a valuable tool for the challenging financial decisions the Township faces. For the past few years, the Township's Finance Director has diligently maintained the tool that has helped the Township to make several major financial decisions.

FUND DEFICITS

As of December 31, 2003, the Road Improvement Fund had a fund deficit of approximately \$67,000. The Road Improvement Fund's deficit should be eliminated over the next few years as the revenue from the construction special assessment are collected. In addition, the Pinnacle Local Development Finance Authority has a fund deficit of approximately \$27,000. The deficit should be eliminated when the authority begins capturing property taxes. Once again, the five-year financial forecast can serve as a valuable tool to analyze the potential future performance of these funds.

SEWER AND WATER FUND

It appears that the Township's implementation of the current rate structure continues to meet the objectives that initiated the change, including providing sufficient cash flow for operations and a more equitable billing structure for users based on consumption. We would like to remind the Board that the basis for this system's current structure is that rates are set to match current expenses and usage on an annual basis. As such, we encourage a review of the existing rates on an ongoing, annual basis given the large increases expected from the City of Detroit and the South Huron Valley Utility Authority.

In addition, we noted that the water and sewer receivable subsidiary ledger is reconciled to the general ledger at the end of the year. Performing this procedure on a monthly basis would assist in detecting and correcting potential errors.

Also, in the Sewer and Water Fund, cash restricted for future construction was not reconciled during the year to the reserved fund balance as shown in the general ledger.

SEWER DEBT FUND

As we noted last year, the Sewer Debt Fund's fund balance exceeds the annual debt service. According to State guidelines, the Township cannot accumulate more than one year's worth of debt service payments within that fund. Although fund balance decreased by approximately \$520,000 in 2003, the fund is still not in compliance with State guidelines. The Township has eliminated the Debt Service millage, but should continue to monitor this situation closely.

PERFORMANCE BONDS

As we noted last year, our review of performance bonds revealed numerous old outstanding deposits. The Township should investigate the status of old bond deposits to determine whether amounts need to be refunded to the appropriate parties, whether they should be forfeited to the Township, or if escheatment to the State of Michigan is required.

NEW HOMESTEAD AUDIT PROGRAM

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming an homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

STATE TO FUND PERSONAL PROPERTY TAX AUDITS

The State's fiscal year 2003/2004 General Government budget approved by the Legislature and the Governor contains an additional appropriation (\$7 million) for personal property tax audits. The Michigan Department of Treasury is responsible for developing the guidelines of the program. Applications were due in October 2003.

MUNICIPAL FINANCE ACT REVISIONS

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township's year end (June, 2004) and is good for one year thereafter.

INTERNAL CONTROL CONSIDERATIONS

During the audit, we noted the following regarding the internal control structure:

- Due to a shortage of accounting staff, there is an overall lack of segregation of duties. The Financial Administrative Assistant prepares checks, prepares bank reconciliations, and has the ability to post manual journal entries to the general ledger. If additional staff cannot be hired, other oversight procedures should be instituted to strengthen these internal controls.

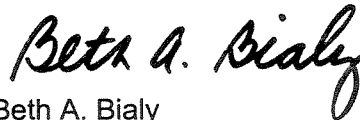
INTERNAL CONTROL CONSIDERATIONS (CONTINUED)

- The monthly bank reconciliations are not reviewed by anyone other than the preparer.
- A formal policy should be used for the approval of new vendors within the accounts payable system. Currently, new vendors are created within the system when an invoice is received. No approval is currently necessary.
- We continue to recommend that the Township formalize internal procedures in writing. Specific areas that would benefit from such standardized documentation would include (but are not limited to): inter-departmental accounting, cash disbursements, payroll, property tax remittances to other taxing authorities, and cash receipts.

We would like to thank the Township Board and all Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Beth A. Bialy



Brian J. Camiller